



Northern Ireland
Fiscal Council

Bringing transparency to NI's public finances

The NI Executive's 2024-25 Budget:

supplementary note -
IFRS16

August 2024

Issue for clarification

On 14 May 2024, we published our assessment of the Executive's Budget 2024-25. Table 4.9 on page 35 compared the Capital DEL budget position for 2024-25 with the initial and final plan positions for 2023-24.

Table 4.9 - Capital DEL spending and financing

£ million		NIO's 2023-24 Budget	2023-24 Final Plan	Executive's 2024-25 Budget
FINANCING				
	Block Grant	2,040	2,097	1,779
	Irish Government Funding	-	-	89
	RRI Borrowing	200	150	220
TOTAL FINANCING		2,240	2,247	2,087
<i>pays for</i>				
SPENDING				
	Departmental spending	2,240	2,242	2,087
	Centrally held	1	5	-
TOTAL SPENDING		2,240	2,247	2,087

Source: Department of Finance

Beneath Table 4.9 we stated:

"The conventional capital budget is 7 per cent lower than the Secretary of State's initial capital budget for 2023-24 and the budget that departments were working with at the end of the year. In real terms this is a drop of 8 per cent. (In contrast to resource funding, the initial budget last year was not topped up materially either by Barnett consequentials or the UK Government support package. But the relatively large decrease against the 2023-24 final plans is explained in part by a one-off adjustment of £139 million - due to a change in the accounting treatment for leases)."

This accounting treatment refers to International Financial Reporting Standard 16 (IFRS16)¹ which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Detail

In 2021-22, the Treasury commissioned an exercise for IFRS16 in which departments were asked to consider the IFRS16 guidance and the impact of changes to budgetary requirements for leases.

Any changes to departmental budgetary requirements which were because of the implementation of the new IFRS16 accounting standard were to be met by the Treasury over a three-year transition period. The Department of Finance has confirmed there are no further requirements for IFRS16 and the Treasury has met the requirements in full. The transition period is now finished and any further

¹ See <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards/english/2021/issued/part-a/ifrs-16-leases.pdf>

IFRS16 requirements must be met by departments from within their Capital DEL Budget allocations.

The transitional results were mainly increases of Capital DEL and depreciation requirements within ringfenced Resource DEL, and connected reduction in non-ringfenced Resource DEL requirements for the three years 2022-23, 2023-24 and 2024-25 (the transition period).

What IFRS16 does

The essence of IFRS16 is to move leases from non-ringfenced Resource DEL to Capital DEL i.e. on-balance sheet.

The Department of Finance has explained the technical details:

Prior to IFRS16, a significant number of leases were off balance sheet, meaning that the lease payments (or operating payments) were costed to RDEL, with no CDEL cost. The budgetary and accounting impact of IFRS16 means that most leases come on balance sheet, with the recognition of an asset, for the right to use the underlying asset in the lease, and a liability, for future payments to be made on the lease. An on-balance sheet lease has three impacts on resource and capital:

1. *capital expenditure at lease commencement, for the asset recognised on-balance sheet;*
2. *ringfenced depreciation, due to depreciation on the leased asset over the life of the lease; and*
3. *non-ringfenced resource expenditure for the interest incurred over the life of the lease (as annual cash payments on the lease now score as working capital movements).*

In less technical terms, the budgetary impact of IFRS16 is:

1. *Capital DEL - increases as leases are now recognised as assets;*
2. *Ringfenced Resource DEL - increases because those assets need to be depreciated;*
3. *Non-ringfenced Resource DEL – the net impact of:*
 - *lease payments being removed (for existing leases being capitalised), and*
 - *new cost for interest on capitalised leases (either existing leases or new leases).*

Impact on NI Executive Budgets

Therefore, the adoption of IFRS16 has resulted in additional Capital DEL requirements for NI departments in relation to these leases. That additional requirement had a profile that was particularly notable in 2023-24. This meant that the Capital DEL impacts of IFRS16 was £123 million lower in 2024-25, compared to

2023-24. Table 4.9a below sets out the Executive's IFRS16 departmental requirements for the transition period, as submitted to Treasury.

Table 4.9a - The budgetary impact of IFRS16 on NI Executive DELs

£ 000s	2022-23	2023-24	2024-25
Ringfenced Resource DEL	42,988	43,667	44,021
Non-ringfenced Resource DEL	-37,379	-40,887	-41,867
Capital DEL	38,864	139,236	15,988

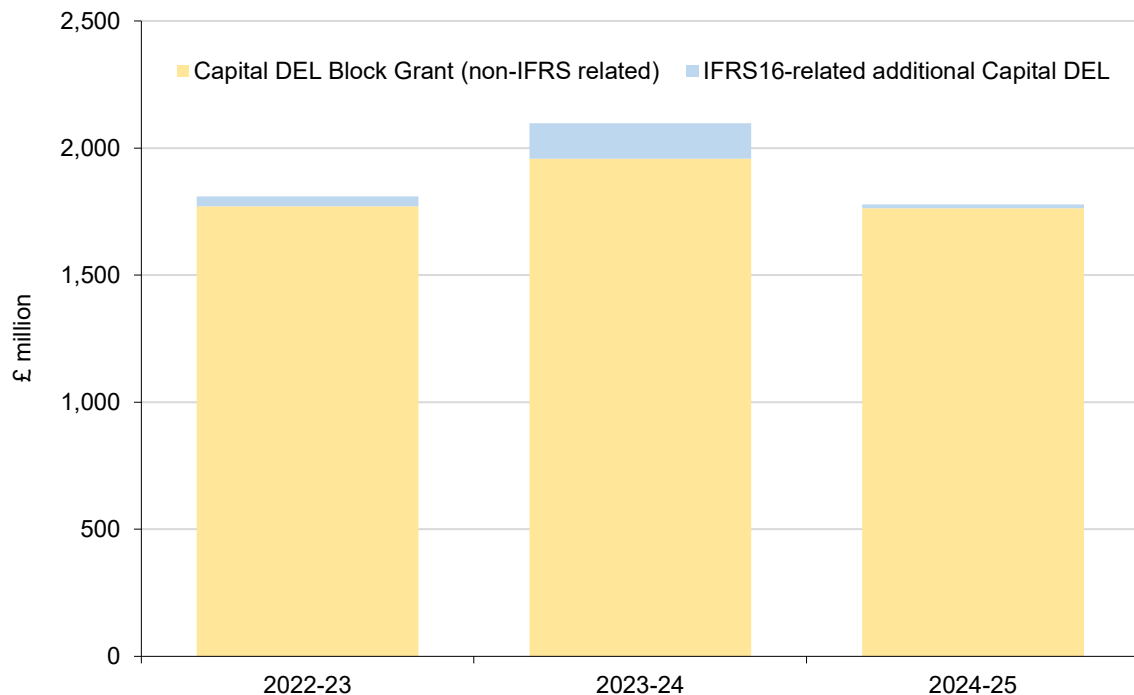
Source: Department of Finance

The significant reduction in Capital DEL requirement to which we referred in our report is shown in the bottom row from 2023-24 to 2024-25. This reflects the change solely resultant from the implementation of IFRS16. These budgets were over and above annual Capital DEL departmental allocations.

In other words, although we see a relatively large reduction in total Capital DEL in Table 4.9 for 2024-25 compared to 2023-24, it should be noted that it is not because the Executive's Capital DEL provision via the Block Grant has fallen due to UK Government spending decisions but because we are comparing a total capital figure for 2024-25 that was boosted for accounting standards reasons by a much smaller amount (£15,988,000) than the relatively large one-off provision of (£139,236,000) in 2023-24.

Chart 1 shows the proportion of total Capital DEL which is related to IFRS16, and Table 4.9b shows the percentage change from 2023-24 to 2024-25 both with and without the additional capital provided by Treasury for IFRS16.

Chart 1 - The impact of additional IFRS16 Capital DEL on total financing



Source: Department of Finance

Table 4.9b - Change in CDEL with and without IFRS16

£ million	NIO's 2022-23	2023-24	Executive's
	Budget	Final Plan	2024-25 Budget
Capital DEL Block Grant (non-IFRS related)	1,771.1	1,958.2	1,762.9
IFRS16-related additional Capital DEL	38.9	139.2	16.0
Total Block Grant Capital DEL	1,810.0	2,097.4	1,778.9
Change including IFRS16 additional Capital DEL (per cent)		15.9	-15.2
Change excluding IFRS16 additional Capital DEL (per cent)		10.6	-10.0

Source: Department of Finance

Table 4.9 in our 2024-25 Budget report shows a reduction in Block Grant Capital DEL of £318 million between 2023-24 Final Plan and 2024-25 Budget, of which, as we show above in Table 4.9a, nearly 40 per cent – i.e. £123 million (£139 million - £16 million) - relates to IFRS16. Table 4.9b shows that the overall decrease in Capital DEL from 2023-24 to 2024-25 is 5 percentage points greater when the IFRS16-related changes are included. This means that a significant part – but not all – of the capital reduction is not, therefore, a real reduction in departmental spending power but a technical adjustment. There will be an ongoing impact on the Executive's Capital DEL because future leases will be capitalised, and we do not anticipate there will be future Treasury-funded adjustments.